REMARKS

ON

CURRENCY AND BANKING.

REMARKS

UPON SOME PREVALENT ERRORS,

WITH RESPECT TO

CURRENCY AND BANKING,

AND

SUGGESTIONS TO THE LEGISLATURE AND THE PUBLIC AS TO THE IMPROVEMENT OF

THE MONETARY SYSTEM.

By GEORGE WARDE NORMAN, ESQ.

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In the autumn of 1832 the Author of the following pages wrote a pamphlet containing a short exposition of what he considered the true principles of Currency, and their application to the state of our monetary system as it existed before the renewal of the Bank Charter. He was prevented from publishing it at that time by circumstances unnecessary to be detailed; but having since reflected on the subject, and finding reason to imagine that the events of the last four years confirm the correctness of the general views he had previously entertained, he has reprinted that portion of his production which contained them with a few trifling alterations. He has added suggestions for the improvement of our paper circulation, as it exists at present, and a few observations on some opinions brought forward in the recent publications of Colonel Torrens and Mr. S. J. Loyd, whose kindly feelings towards him will not, he is sure, be diminished by a little criticism, intended solely to further the progress of a science which has been so greatly benefited by their devotion to it. With respect to the opinions of the latter gentleman, it must be remarked, that what is said, applies solely to his first pamphlet—the last having appeared while the present publication was in the press.

SECTION I.

PRINCIPLES OF CURRENCY—ERRONEOUS CRITERIA USUALLY APPLIED TO DECIDE UPON ITS PROPER AMOUNT —PLAN OF AN IMPROVED PAPER CURRENCY.

Of all the great questions that have for many years occupied the public attention, there is not one on which opinions have prevailed more discordant, or less reconcilable for the most part, to sound principles than the important subject of Currency and Banking. The discussions in the periodical press which, on other matters, have so greatly tended to enlighten and instruct, upon these seem calculated almost universally to darken and mislead, and the consequence is, that with respect to the Currency, a future is now opened to us, upon which even a bold man, alive to the dangers that environ us, can hardly look without dread.

It is with this feeling that the Author of the

following pages sits down to the task of investigating shortly the general questions of Currency and Banking, with a particular application to the situation of the country at present. He purposes to treat the subject as divided into four distinct heads. The first will contain his exposition of the principles on which a paper circulation should be regulated, and a plan for carrying them into practical effect, supposing the legislature to be perfectly unshackled; together with a refutation of various erroneous opinions entertained by different persons whose authority influences extensive classes. The second will examine the nature and effect of the different remedies which have been suggested, in order to cure the evils in the existing system of circulation. The third will furnish a few remarks on the late and previous periods of commercial suffering, connected with derangement in the Currency in this and other countries, intended to elucidate by a practical application the correctness of the principles previously laid down. The fourth will exhibit the writer's view of the best course to be pursued in the actual state of affairs.

In executing this task it will not be attempted to trace every principle that may be adduced to the foundation on which it rests: such as have been already proved by writers of the greatest authority in economical science, or which are in

themselves sufficiently evident, will be assumed without discussion—while illustration and argument will be employed, when they appear necessary, to establish truths less apparent or less generally acknowledged. By such means alone the advantage of brevity can be attained, without a too heavy sacrifice in point of clearness and precision. The present moment appears peculiarly propitious for such an undertaking as that now proposed ; the public attention is awake to the important matters to be treated of, while the current of affairs has become sufficiently clear and tranquil to enable us to look calmly on our late disasters, and consider the possibility of finding some plan which may either altogether prevent a repetition of them, or at any rate render the periodical hurricanes in the commercial world less frequent and destructive. The recent publications of Col. Torrens, Mr. S. J. Loyd, and Mr. J. H. Palmer, the first so justly distinguished for scientific acquirements, while the two latter add to a knowledge of general principles an acquaintance with facts surpassed by none, have afforded the Author great assistance, of which he has availed himself without scruple ; for such authorities he cannot but feel the highest respect, and they will not imagine that he evinces any want of it when he presumes to differ from their views, or considers their arguments inconclusive.

All civilized countries, in all ages, have adopt-

ed the precious metals as the medium of exchange. The want of some such medium is discovered at the earliest advance from barbarism. We hear occasionally of salt, cowries, or cocoa-nuts being used for this purpose; but these imperfect instruments are speedily abandoned: and the first point to be considered is, whether or not any better general measure and standard of value can be employed than gold and silver. Upon this question a negative may safely be pronounced. No other commodities possess in so high a degree the required qualities. These qualities have been enumerated by several authors; it is only necessary to mention a few:—

DIVISIBILITY,
DURABILITY,
BEAUTY,
UNIVERSALITY OF DEMAND,
CONSTANCY OF VALUE.

The last is the most important of all, and deserves particular observation, as it renders the precious metals pre-eminently fitted for the most delicate part of their functions, that of being used as a measure of the value of other commodities.

That commodity upon the whole will possess the greatest uniformity of value, the production of which demands the greatest uniformity of sacrifice on the part of those who obtain it; the supply of, and demand for, which are subject to the least degree of sudden and considerable increase and diminution, and which at the same time

is the most durable. In all these respects, or at least in a combination or majority of them, gold and silver possess incontestable superiority—as an instance or two will best evince.

Corn has sometimes been proposed as a measure of value, but we see that a good or bad harvest will alter its price in the proportion of one half or more. Labour, a favourite standard with some authors, and the best in a philosophical point of view, is unfit for practical reference, and occasionally subject to great temporary variations when compared with commodities, dependent upon the changes in demand and supply; while there is every reason to believe that during a long course of years, no considerable change has occurred in the cost of producing the precious metals, so as permanently to affect their price; or any alteration in the supply and demand, capable of producing even a temporary effect to any considerable extent. Experience shews that the precious metals, though furnished by different countries, and under varied circumstances, bear nearly the same relation to each other for a long course of years: and, on the whole, we may generally feel assured that when the price of other commodities, measured in them, varies within short periods, the cause is to be sought for in circumstances affecting the former.

The value of the precious metals depends, as has been already observed, on the cost of producing them, on the expenditure of capital and

labour employed to extract them from the earth and fit them for use : but the principles according to which they are distributed among the different nations employing them either in manufactures or as money, have not been sufficiently considered by economists, and merit a few observations.

Only a few countries produce gold and silver in any considerable quantities ; other countries must obtain the stock which they may require either from the former directly, or from those which have subsequently purchased them, by exchanging a certain quantity of their produce for them. The price which they must pay for them will be that which the producers, or prior purchasers, are willing to accept as an equivalent. That country, then, which can produce, with the least sacrifice, a given quantity of commodities of general utility, fitted for foreign use, will be enabled to obtain, with the least sacrifice, a given quantity of the precious metals. It arises from this circumstance, that in what may be called unproductive countries, like Sweden and Poland, commodities of home growth or manufacture are cheap, or, in other words, gold and silver are dear ; a great deal of Swedish or Polish labour being necessary to produce an article which other nations will purchase; while in productive countries, like England, gold and silver are cheap, on account of our greater means of purchasing them ; of course there are some other causes affecting

the relation which the money prices of different countries bear to each other, of which the chief is taxation, but they do not directly affect the present inquiry.

The price of the precious metals measured in commodities, or, what is the same thing, the price of other commodities measured in them, being thus fixed in each particular country, the whole mass of coin and bullion is distributed, according to the respective wants of the several countries upon the principle of competition. A has a certain quantity of products of a certain money value to exchange a certain number of times, and requires, therefore, a certain amount of coin to perform these exchanges; B has commodities of only half the money value, or half the number of exchanges to be performed; half the coin will, therefore satisfy its wants, and so on to the end of the alphabet.

We must here remark, that, as above explained, the value of gold and silver in different countries does not at all depend upon the quantities which each country may possess, but solely upon the cost of producing or of purchasing them. They may be cheap as in the United States, or in England during the last war, when compared with other commodities, where there is little of them, or dear as in Hindostan, where they are supposed to be abundant: indeed, one of the effects which flow from the increased knowledge and civilization that accompany augmented wealth, is the

introduction of more economy in the use of the circulating medium. It is probable that at this moment France possesses less of the precious metals than before the Revolution, and England less than it did fifty years ago.

It must also be remarked, that although the cost of production ultimately regulates the value of the precious metals by limiting their quantity, the price which can be obtained for them at any given moment, depends upon the demand and supply; in this they resemble all other commodities.

It is upon the principle above described that at any particular period the precious metals are distributed through the general markets of the world; but the circumstances which affect this distribution are numerous, important, and constantly in operation, so that the currency of each particular country is in a perpetual state of oscillation.

The most important of the above circumstances are good and bad harvests, the improvements in machinery, the imposition or removal of taxes, the enactment or abrogation of prohibitive or restrictive laws, and the introduction or extinction of paper money. Events of this nature affect the circulation not merely of the country where they occur, but those of all other countries connected with it, either directly or indirectly. We will take an instance for the purpose of explanation, under the head of taxation. Suppose a duty to be levied on an article of merchandise usually exported from

A to B, the effect of such duty will be to increase the price of that commodity in B: this increased price will of course cause a diminished demand. Let us then further suppose that this diminished demand is carried to such an extent, that the aggregate value of the article in question sold to B after the imposition of the duty, is only one half of what it was before, say half a million instead of one million. A still requires the same quantity of goods from B as before, but it has only half the previously existing means of paying for them in its own goods. A will then be obliged to export treasure in payment until the value of its currency has been so much appreciated, and that of B so much depreciated, that it will become once more advantageous to export goods instead of money in discharge of any balance still due. The altered distribution of the precious metals as respects A and B will become permanent, until some fresh occurrence arises of the nature of those above enumerated to affect it anew; but it must be here remarked that, although for the sake of simplifying the case, only two countries have been supposed as affected by the change in the distribution of the precious metals; yet, practically, all countries having commercial transactions with them will be affected in a nearly equal degree. B, whose currency has been augmented, and whose commodities have consequently been raised in price above the level of those of C, will part with a portion of its

lately acquired treasure to the latter country—a similar process will follow between C and D, and so on. Supposing again, a certain quantity of the precious metals to be released from the circulation of England by the substitution of Bank notes,—the amount of gold and silver no longer wanted here will be exported, and finally divided among the rest of the world, other things remaining unaltered, in proportion to the currency which each country previously held.

The process above described requires from its great practical importance to be maturely considered, and the following inference that directly flows from it should be firmly fixed in the reader's mind. No change in the value of a currency, either purely metallic, or of convertible paper, arising merely from a change in its amount, and leaving the standard unaltered, can take place in any given country without ultimately affecting, in an almost equal degree, the currencies of all other countries. The value of this principle will be seen particularly hereafter, when we have to criticise certain prevailing opinions.

Some persons might hesitate to subscribe to this principle who would readily allow its validity with relation to commodities other than the precious metals. Thus, let us suppose cotton goods to be in general demand, like gold and silver, and the trade in them to be perfectly free as that in gold and silver must practically be,—is it not plain that a fall in the cost of producing them

in any one country, occasioning an equivalent fall of price there, would infallibly cause a fall of price in all other couutries, to nearly the same extent, minus the expense of transport?

It must not be imagined that changes in the distribution of the precious metals take place only occasionally, and after considerable intervals, or that they are usually accompanied by any violent alteration of prices. The latter can never much exceed a small per-centage above the cost of freight, carriage, and insurance on the coin and bullion transported; the profit remaining to those individuals who engage in this branch of trade, owing to their competition with each other being necessarily very small, while their operations are of weekly, and indeed almost daily, occurrence. This class of traders is guided by the course of exchange, or the price which can be obtained for the currency of one country in that of another—the par of exchange expressing that relation between them, at which a certain quantity of gold or silver employed in the purchase of a bill, drawn from one country on another, will produce, when the bill is paid, an equal quantity of gold or silver in that other country. The par is usually the medium of the variation in price between the currencies of the two countries; the difference on either side of it being limited to an amount a little exceeding the cost of transmitting coin or bullion.

It is unfortunate that no precise and neutral terms have been employed to designate the state of the exchanges. The epithets high and low are equivocal, as when we say the Paris Exchange is high, it may be supposed either that a given sum of French money will command a large sum of English money, or that a given sum of English money will command a large amount of French money, while the epithets favourable and unfavourable are still more objectionable; for the former being applied to a state of commercial relations which involves an import of treasure, the latter to one which occasions an export of it, they necessarily imply that the former is to be desired, and denotes a prosperous condition of the trading world, the latter the contrary; the truth being that both states of the Bullion Market are advantageous, gold and silver being always sent out or brought into the country when they answer better than other commodities, and never when they answer worse. It is true that under our faulty system of Currency we occasionally suffer from a want or an over supply of them, but these are artificial evils of our own creating. The author must content himself with pointing out the mischief arising from the absence of an appropriate phraseology, without pretending to supply the deficiency.

So far we have chiefly considered currency as composed of the precious metals alone. It is

now necessary to direct our attention to some effects arising from the employment of paper in a greater or less degree.

Convertible paper implies on the part of the issuer, whether the government itself, a company, or an individual, a promise to discharge each note in a certain quantity of gold or silver of a certain fineness. As the holder has the right of exchanging notes for coin or bullion at his pleasure, and will certainly do so, whenever the operation is attended with a profit, convertible paper, setting insolvency aside, must be identical in value with the coin it represents—there can be no appreciable difference, except under very extraordinary circumstances, and for short periods, such as those which accompany political discredit. The evil, should it exist, would be speedily cured, unless insolvency on the part of the issuers supervened.

An issue of paper money produces precisely the same effect on general prices as would follow from an augmentation in the quantity of the precious metals—it raises them; first in the country where the paper is issued; then in those countries which have the most immediate connexion with the former country; and, finally, in the general market of the world; on the contrary, a calling in of paper-money has a directly opposite tendency. Gold and silver become appreciated, first in the country requiring an addi-

tional stock of them, and subsequently in all others. The effects thus described are produced very speedily upon two or more countries, between which there subsists an intimate mercantile connexion, and would be felt after a short interval, wherever the precious metals were produced, or used as the medium of exchange, or for any other purpose. Merchants immediately discover the places where they are most wanted, where they will purchase the greatest quantity of other goods, and to those places they are sent until the equilibrium has been restored.

It is impossible to calculate exactly, in any given circumstances, the maximum of time which might be required to produce the effects here described; but, taking the past oscillations in the amount of our own currency as a fair ground of estimate, we may safely assume that, in a few years after a derangement in the value of the precious metals in any one European country had taken place, its effects would be definitively distributed throughout the remainder of that quarter of the world, and the equilibrium of their several currencies be restored.

The following short statement, without pretending to perfect accuracy, will give a sufficiently clear view of the changes in the equilibrium of the whole currency of this country, compared with those of foreign countries, during the last few years:

Gold came in from about	June,	1819,	to about	Oct.	1824.
went out from	..	Nov.	1824,	to ..	Nov.	1825.
came in from	..	Jan.	1826,	to ..	Aug.	1828.
went out from	..	Sept.	1828,	to ..	Feb.	1829.
came in from	..	Mar.	1829,	to ..	Aug.	1830.
went out from	..	Aug.	1830,	to ..	Mar.	1832.
came in from	..	Mar.	1832,	to ..	Oct.	1833.
went out from	..	Oct.	1833,	to ..	Apr.	1835.
came in from	..	April,	1835,	to ..	Apr.	1836.
went out from	..	April,	1836,	to ..	Feb.	1837.
came in from	..	Feb.	1837.*			

It must be again remarked, that the above observations, explanatory of the law which governs the value of the precious metals in all countries and keeps them in equilibrium, are of the greatest practical importance, on account of the numerous errors to which an opposite opinion has led: they will be frequently adverted to hereafter, and merit the constant recollection of those who wish to form clear notions on the subjects now under discussion.

It has been already observed that the rate of exchange marks the price which the money of one country bears in that of another—it is indeed our sole guide, and affords the only rule by which we can judge whether the currency is superabun-

* The above epochs are nearly those of the commencement of increase or decrease in the treasure of the Bank, which, being frequently influenced by internal causes, do not exactly coincide with the indications presented by the foreign exchanges; these last as noted would not have exhibited more certain results.

dant, deficient, or of the proper amount. Here again we have a principle apparently both clear and undeniable, which is yet little understood by the public at large, and even neglected by not a few persons who are looked up to as authorities in such matters. The common form which its denial assumes, is an assertion that the currency is in excess or deficient, because the prices of certain articles of merchandise are high or low, or the rate of interest low or high, or because the circulation has been augmented or diminished; or, lastly, because the amount of deposits in the hands of bankers is large or small, increasing or diminishing. A few observations upon each of these mistakes which abound in the City articles of newspapers, and are to be found even in the evidence of persons called before the last Bank Committee, may not be inappropriate here.

One, two, twenty, nay, it is possible, though highly improbable, that all the commodities in England might fall in money price, without any appreciation of the currency, that is to say, without the occurrence of any change affecting the precious metals themselves. If such an event should take place, without any derangement in the exchanges, or should continue when, after a derangement, the equilibrium had been restored, we might be almost sure that the cause was to be sought in some circumstance extrinsic to the currency, unless at the same period a corresponding

fall, of nearly similar amount, could be traced in the money prices of all other countries. Then, indeed, it might be fairly assumed, though not with absolute certainty, that the phenomenon was referable to some alteration in the value of the precious metals themselves. Past experience has shewn only one instance in the history of the world, when an alteration in the real value of gold and silver within a short period could have produced any sudden and considerable effect upon prices in general. It took place during the period which succeeded the discovery of America. The evil then was a rapid depreciation; it is now supposed that a real enhancement of value is taking place to a certain small degree. The supposition, owing chiefly to the suspension of mining operations in the Spanish colonies, may be correct; but the effect must have been counteracted to some extent by the general improvements in banking; and there is every reason to imagine, that no considerable effect will have been produced in this way, before a restoration of tranquillity, and accumulation of capital in those parts of the globe most rich in the precious metals, will increase their production to its former amount, and perhaps far beyond. Even at present it is chiefly in silver that any great defalcation exists; for the gold received within a few years from the Ural mountains, and still more lately from the United States, is a supply of recent origin, and

must tend in some degree to fill up the vacuum caused by the political troubles in Spanish America.

Thus, then, even a general fall of money prices might not render what is called an equitable adjustment consistent with any sound principles of justice or policy. Such a circumstance, should it occur, would probably be traceable to some causes acting on commodities other than gold and silver, and we may affirm such to be the case, with very little chance of error, when the supposed fall can only be traced in one particular country.

The above reasoning will enable us to appreciate the true value of the arguments which attribute to Peel's Bill, or to the recal of £1 and £2 notes, an effect upon money prices in England equal to 50 or 60 per cent. Those who adduce them in order to produce even a colour of reason in their favour, must shew, 1st, That the fall has been nearly equal, and has applied to all commodities whatever at home; 2nd, That it has taken place in a degree almost similar both as to extent and intensity abroad. An attentive examination of Price Currents since 1819 will shew a total failure in both points, which is confirmed as to foreign countries by a complete absence of any general complaint of a fall of prices referable to the currency, of a similar kind to what has so long prevailed here.

The second prevailing error which influences many persons in the judgment they form of the proper amount of currency at any given time, is that which consists in regarding the current rate of interest as a criterion. The phrase "interest of money" has had, perhaps, much influence in bringing this opinion into vogue, and it is fostered by the circumstance, that Bank notes are usually issued upon securities bearing interest. Yet both sound economical principles and experience concur in shewing that it is perfectly unfounded and can only lead to delusion, as the following considerations will evince.

Interest is the price which the borrower pays to the lender for the use, not of money, but of capital. The loan is, indeed, usually made in money in the first instance, but that is a mere matter of convenience, arising from its being an universal medium of exchange. A cotton and a woollen manufacturer require a quantity of the raw material employed in their respective trades; in order to obtain it they each borrow £1000 from their banker, and pay it away immediately to the merchants who have imported the Spanish wool and the Brazilian cotton, which thus constitute the real loans to them. Or, if provided with the raw material, they may want the means of furnishing the wages of their workmen, in which case the same result is finally obtained, although after one additional step, beyond what appears

in the example last supposed. The money is now paid to labourers, who distribute it among the different shopkeepers by whom their wants are supplied. The meat, bread, clothing, &c., really constitute in this instance the capital borrowed, for which interest is paid. It is true that a certain portion of money being, under present circumstances, one of the instruments of production, thus forms a part, though generally a very inconsiderable part, of capital; but this is not the circumstance to which those who maintain the doctrine now impugned allude. Interest would continue to exist was there no such thing as money in the world, and were all exchanges performed by barter. It is not of course meant to be denied that, especially under present circumstances, while the greater part of the currency is advanced by the issuers upon securities bearing interest, the increase or diminution of the currency will have no effect whatever upon the rate of interest, but merely that the effect will be transient, and—excepting as to the small extent in which money enters into capital, and there is a specific demand for it—that it arises chiefly from circumstances peculiar to our monetary system. Suppose the Bank at any given period to throw £1,000,000 in paper upon the money market of London by a purchase of Exchequer-bills to that amount, the immediate consequence will be, that those who want to borrow Bank-

notes will be able to obtain them at a lower interest than before; but the excess will in all probability be speedily absorbed, the capital obtained for it will be employed in the production or distribution of commodities, and the permanent effect of the augmented circulation will be seen in higher prices and a fall in the exchanges.

The following facts will confirm the views here maintained of the absence of any necessary connexion between an extended or contracted currency, and a low or high rate of interest.

During the operation of the Bank-restriction Act, when an excess of issue had depreciated the currency from 5 to 30 per cent., the rate of interest was always much higher than it has ever been since the return to cash payments; occasionally it reached 8 and perhaps 10 per cent., while, when the Bank issues were subsequently reduced, and the exchanges rose, it rapidly fell. In 1822, 1823, and 1832, the general circulation was low, and the rate of interest was low also, and the same circumstance has occurred in the last few months, and exists at present. Towards the end of 1824, and the beginning of 1825, and again in 1836, anterior to any contraction, and when, confessedly, the circulation was very high, the rate of interest rose. In all these instances the fact is exactly opposite to what is assumed by those who maintain the opinion now animadverted on. In the summer of

1830, and perhaps on some other occasions, we had a high currency, and a low rate of interest. It appears, then, on the whole, that there is no fixed and necessary connexion between them; although, while the process of contraction is going on there is a tendency in the rate of interest to rise, and the reverse while the currency is expanding. It is greatly to be wished that no part of the paper circulation were to be issued in loans at all, but on this point more will be said hereafter.

Another mistake, somewhat analogous to the last, is that which decides upon the sufficiency of the currency exclusively by a comparison of its amount at different periods. This mode of viewing the subject assumes that the demand for currency, that is to say, the value of the commodities to be exchanged, the number of exchanges, and the velocity of the circulation, shall be always equal; but as these must manifestly vary from year to year, and even from month to month, it follows that the amount of currency, instead of being fixed, must constantly change in order to suit the wants of the community. The exclusive appeal to this criterion, and not a proper attention to the amount of the currency at given periods, is here objected to; for although the demand for it is not fixed, yet it seldom alters rapidly or extensively within short intervals, and thus useful inferences may often

be drawn from attention to this point. It is greatly to be wished, in order to render our knowledge more accurate and complete, that all Banks whatever, issuing paper, including those in Scotland and Ireland, were compelled to publish the amount of their issues at regular and stated times. The separate returns should be methodized, and inserted in the London Gazette, or some other authentic source of official information.

The fourth in the list of errors now commented upon is that which proposes to regulate the amount of currency by attention to the deposits in the hands of the Bank of England and private bankers, thus assuming that there is some fixed and necessary connexion between the state of the currency and the balances left unemployed by the public. Persons agreeing in the main point are still diametrically opposed to each other as to the inference which ought to be drawn from it, some affirming that deposits being so much taken from the circulation must tend to reduce its amount, and that when they increase, the Bank ought greatly to extend its issues, in order to fill up the vacuum; while others regard large deposits as a proof of a superabundant circulation, and as calling on the Bank, without reference to the exchanges, for a reduction in its issues. The fact is, that the amount of deposits affords not the supposed criterion. It is even more removed

from the truth than that which is taken from the rate of interest, for it depends mainly upon the rate of interest, though many other circumstances also influence the unemployed balances. They may be either high or low, with either a high or low currency. It is quite true, that inconvenience may in some cases arise from an union of the business of issuing paper with that of receiving deposits. The currency and deposits may both be large, the latter may be drawn out, and the circulation be thus augmented, when the amount of Bank notes is already too high, and when it may be difficult to realize securities ; or the former being low, may be still further diminished by an augmentation of the latter—great skill and management are required on such occasions to reconcile, as far as may be, duties to a certain degree incompatible. This can only be effected, and that in part, by a strict attention on the part of the Banks to the state of the exchanges, and by an employment of the deposits, in rigid accordance with, and subserviency to, the inferences derived from it.

Having thus shewn that neither the range of money prices, the rate of interest, the absolute and comparative amount of the circulation, and the quantity, and increase or diminution of deposits, so commonly referred to as infallible criteria of the sufficiency or insufficiency of the currency, can be at all relied on, we are naturally carried

back to the exchanges as the only sure and certain guide upon which a thorough and complete reliance can be placed, at almost all times and under all circumstances.

In the foregoing observations we have treated of the currency, without any peculiar attention to the substance of which it may be composed. We must now revert particularly to a paper circulation. It has been shewn that the precious metals afford the best, and indeed the only safe, standard of value; but they are very costly and so cumbrous, that their exclusive use in a country like England would oppose great and almost insurmountable obstacles to the transactions of commerce upon their present scale. The separate advantages of fixity of value, cheapness and convenience, are obtained by employing Bank notes, pieces of paper containing promises to pay on demand certain weights of gold or silver, as the case may be, of a certain fineness.

The amount of Bank notes and coin taken together, if the former be convertible, cannot, except perhaps for a short period, exceed or fall short of the money that would circulate were the currency purely metallic. They can never remain at the same amount long together, but will vary in consequence of the numerous circumstances which influence prices both at home and abroad. The process of variation consists in the

return of notes to the Banks for gold or silver when the currency is high, and the demand for notes in exchange for gold or silver when the currency is low. The maximum and minimum of the whole circulation, in any given oscillation, will be nearly the same, whether it be purely metallic or mixed: the utmost that can result from error on the part of the issuers is, perhaps for a short time during a progressive increase or diminution, to keep it a little too high or too low, and to prolong more or less the period at which the maximum or minimum will be attained by, on one side, re-issuing notes as fast as they are paid off in coin or bullion, on the other, by recalling notes issued against coin or bullion.

A paper currency will be more or less perfect in proportion as its contractions and expansions resemble those which would take place in the amount of a purely metallic currency under similar circumstances. It might be considered practically perfect if, in addition to being thoroughly convertible and unexposed to discredit, except perhaps in times of very great political excitement, it were at every moment to be of precisely the same value as the metallic medium which might supply its place, being increased and diminished under the same circumstances, at similar periods, and to a like extent. To attain this perfect equality of value on the whole, its

amount would usually be somewhat less than a similar value in coin, owing to its superior convenience and power of performing a somewhat greater number of exchanges.

We have seen that neither the range of general prices, the rate of interest, the relative amount of currency at different times, nor that of deposits, afford any fixed or certain rules for the guidance of the issuers of paper money, and that such are to be sought for in the state of the exchanges alone. What then is to be thought of our present system, wherein one mass of issuers, the Joint-Stock Banks and Country Bankers, look almost exclusively to these fallacious criteria; while the Bank of England, which alone even pretends to adhere to correct principles, is thwarted by the injudicious conduct of its associates, and frequently embarrassed by the difficulties of its own position in the twofold capacity of money issuer and agent for ordinary banking business! No correct notions can ever be formed upon the subject of currency, unless the business of issue be clearly separated in the reader's mind from the other transactions which form the real and legitimate employments of the banker. They are, in fact, not merely distinguishable, but dissimilar, and, perhaps, irreconcilable. The rule of utility would place the former exclusively in the hands of the government, to be exercised by it directly, or through the medium of some

delegated body as peculiar circumstances might render most convenient, while the latter would be left perfectly free. In barbarous ages powerful subjects were occasionally permitted to possess mints of their own; but since political knowledge has increased, these pernicious privileges have been abolished, and at present, in all civilized countries, the sovereign power, of whatever nature it may be, retains the coinage in its own hands. If it were now to be proposed that private persons should be allowed to strike money, most people would at once perceive that nothing but mischief could result from such a measure,—that under such a system, the currency would either be the same as before, and no good would arise, or different, in which case evil would have been produced. Yet is it not undeniable that all the arguments which apply to the Mint are strictly applicable to the issue of paper money; and that their force is increased by others strictly peculiar to the latter? A sovereign carries its own value with it, and cannot be subject to discredit or insolvency on the part of the issuer, while the very small profit that could be derived from a private mint would afford a sufficient guarantee against the risk of over-issue.

The cuckoo cry we so often hear, as to the dangers and abuses of a monopoly, is a pregnant instance of the argument "ad ignorantiam." Monopolies are usually unpopular because perni-

cious, and when pernicious, ought to be abolished; but when, in one case out of a hundred, advantage arises from them, the common good requires that they should be maintained. Let it be assumed, then, that the issue of paper should be confined to the state; what seems the best plan on which the wants of the country could be supplied? We must here suppose that the field is open, that no set of persons have acquired a sort of vested interest which it may be difficult to deal with, that no established habits or prejudices interfere with the free agency of the legislature, and the course to be pursued seems sufficiently clear.

The ordinary business of banking would be left perfectly open, to be carried on by single persons, by ordinary partnerships, or by joint-stock companies, as the freest competition shewed to be most advantageous. The issue would be managed as follows.—Let us suppose a paper circulation of thirty millions to be required; of this sum a certain amount, say one-third in the first instance, would be invested in coin and bullion, though experience might subsequently prove that proportion to be unnecessarily large, and the remainder in profitable securities or the discharge of public debts. An establishment would then be formed, whose simple and exclusive business it would be to issue notes for gold and silver, and gold and silver for notes. The former operation would be required when the exchanges were

high, the latter when they were low ; the contractions and expansions of the currency would be perfectly natural, and it would differ no otherwise from one purely metallic than by its superior cheapness and convenience; all ordinary banking business would be strictly forbidden to the issuing body, the expenses of management would be small, and the profit, reckoning the gain both of the government and the public, considerable; the notes of course would be a legal tender from every body but the Bank itself, and the most perfect publicity would be enforced.

The danger of forgery, particularly applicable to small notes, seems to afford the only good ground for rejecting Mr. Ricardo's plan of making the notes payable in bullion instead of coin, and thus saving the expense of a mint, except for silver.

Some persons might prefer mint notes,—simple receipts for coin or bullion,—for every one of which a corresponding amount of gold should be retained ; but this plan, though more cheap and convenient than a metallic circulation, would cut off a source of considerable saving to the state, without any corresponding advantage.

It would certainly be desirable in many points of view that the paper money should be only exchangeable for coin in the metropolis, but against this plan it might be urged that inconvenience would occasionally exist in the provinces

from a want of coin, which there would be no legal obligation on any body to supply. It is certain, however, that bankers would be compelled to provide a sufficient stock of coin for the accommodation of their customers, perhaps at a considerable expense to themselves, if obliged frequently to bring it from London. To meet this expense, they would either charge a premium on payments in gold, or incur a loss. The way to meet this evil, should it be deemed of sufficient importance, would be to establish branches of the metropolitan establishment in different parts of the country. These, if not too much multiplied, and under proper regulations, would not occasion any very heavy expense.

SECTION II.

EXAMINATION OF THE VARIOUS SCHEMES PROPOSED TO REMEDY THE EVILS OF THE CURRENCY—LOWERING THE STANDARD—AN EQUITABLE ADJUSTMENT—UNLIMITED FREEDOM OF ISSUE—AN INCONVERTIBLE GOVERNMENT PAPER—TEMPORARY ISSUES BY GOVERNMENT—A SILVER STANDARD—A DOUBLE STANDARD.

The object of the last section has been to point out the true principles on which a paper currency ought to be regulated, and to expose the unsoundness of the false criteria by which its sufficiency or insufficiency are frequently estimated.

It has been shewn that the precious metals afford the best and only safe standard, and that a mixed circulation, consisting of coin and paper, will be more or less perfect, in proportion as at every moment it approaches in a greater or less degree to what would be the amount of coin (allowing for the greater convenience of Bank notes) in case there was no paper. We have farther seen that the exchanges afford the only test by which a correct opinion can be formed as

to the state of the circulation in point of extent —that the Bank of England is the only body issuing notes which even pretends, in an imperfect degree, to regulate its amount according to the dictates of this safe monitor; while the private and joint-stock banks, acting upon a principle of competition, and diminishing and increasing their issues in consequence of changes in the money-market, or in the prices of commodities, must necessarily, under certain circumstances, do much mischief.

The public in general attribute much greater importance to the fluctuations and other evils of our system of currency than they fairly deserve. According to some authors of great repute, and the almost concurrent opinion of the newspapers, all the misfortunes which have afflicted trade during the last fifty years are traceable to them alone. This opinion is an immense exaggeration of the truth. Mr. Loyd well observes, "that in "examining what we are in the habit of calling "the state of trade, we find it subject to certain "conditions which are periodically returning; "it revolves apparently in an established cycle. "First we find it in a state of quiescence—next "improvement — growing confidence — prosperity—excitement—over-trading—convulsion—"pressure—stagnation—distress—ending again "in quiescence." Now this established cycle will be found in countries, like France or Holland,

before the revolution, in both of which the currency for practical purposes may be considered as metallic, with its conditions as plainly, if not as strongly marked as in England or America. Experience shews us, that in such countries, and during periods when no variation in the value of gold and silver was suspected, mercantile excitement and a spirit of wild speculation have nevertheless appeared occasionally with all their attendant mischiefs; and there were so many causes pointing this way in operation previously to the panic of 1825 and our late disaster, that no rational doubt can be entertained, but that had no such thing as a Bank-note then existed in England, the years 1825, 1826, and 1837 would still have brought with them a numerous train of mercantile disasters. At the time of the South Sea Bubble the Bank of England circulation was very small, and increased slowly, and that of other issuers was in its infancy, yet the infatuation which then prevailed far surpassed what has been seen in our days.

Nevertheless, although sober reason denies the unfounded assumption, that all great commercial convulsions may be traced to a faulty system of currency, there can be no doubt but that this country has suffered greatly of late years, from the nature of its paper circulation, which, viewed as a whole, presents the following exceptionable points :—

1. A tendency to vary in amount both as to excess or deficiency in an unnecessary degree, and at unsuitable periods.

2. A liability to discredit, both mercantile and political, in a large portion, if not the whole of it.

3. Insolvency on the part of many of the issuers.

Insolvency shews itself in two forms, which it is necessary to distinguish, as they are frequently separated in fact, and are in some degree characteristic of two classes of issuing bodies. The first is a simple inability to discharge notes on demand, while their ultimate liquidation is certain, and is frequently not even doubted of by the holder. The second form of insolvency is that which involves loss on the part of creditors.

All the objections usually urged against our present currency, however varied in terms, in so far as they are well founded, may be conveniently ranged under these heads. The object of the present section will be to examine the various popular remedies which have been proposed for the purpose of placing our monetary system on a secure foundation, and to decide upon their advisableness according to the principles proposed in the present publication.

It would be a waste of time and labour to hunt out every nostrum proposed by the merest politi-

cal quack. Those suggestions which have emanated from persons considered to be of high authority in such matters, and which have obtained a certain weight in public opinion, alone deserve a serious attention. Among the most important, from the popularity it has acquired, and from the tremendous evils which would flow from its adoption, is that which proposes in effect, though not always in words, a lowering of the standard by an increase of paper. To this then our attention shall be first directed.

The supporters of this scheme consider that since the return to specie payments, and especially since 1825, the currency has been insufficient in point of amount—that the precious metals have been enhanced in value, and that prosperity can never return until a large increase of the circulation has taken place. Some of them do not appear to know that such an increase is impossible, unless the standard is lowered, so as to create a depreciation; while others seem to be aware that depreciation and increase of paper must go hand in hand, and that if we are to have twenty-five millions of Bank-notes instead of eighteen, they can only be paid, if convertible at all, in what they call "little sovereigns."

We have already seen that the value of the precious metals, if raised in any one country, from causes specially affecting them, must speedily be raised in all, and in a nearly equal de-

gree; and that without appealing to the difficult test of Price Currents in England, the absence of all suspicion of such an occurrence, to any considerable extent, on the continent, is a sufficient proof that it has had no existence there, or consequently here. If this be the case, it is clear that the fall in certain commodities and classes of commodities so constantly and confidently referred to, when it has taken place, is referable to some of the other elements which influence prices—of which by far the most important is a diminution in the cost of production, arising from improved machinery, greater scientific skill, cheaper and more rapid communication, &c.

It may here be useful, by a short illustration, to show that producers do not usually suffer from a fall of money prices, arising from a diminished cost of production,—that they are as well off in such a case as the public creditor, or the receiver of any kind of fixed income. Let us suppose a community composed of a certain number of shoe-makers, a certain number of hat-makers, and a certain number of fundholders; that the first produced annually 300 pair of boots, worth £300, the second 300 hats, worth also £300, and that the last received the produce of a tax, raised in equal proportions from the other two classes, to the amount of £200;—this revenue they would employ in the purchase of 100 pair of

boots, and 100 hats,—while the shoe-makers and hat-makers exchanged with each other one half of the stocks that respectively remained to them. Each of the three classes would then possess 100 pair of boots and 100 hats. Now let us imagine some great improvement in the manufacturing process, which should enable the productive classes, with the same capital as before, to obtain a double return—600 pair of boots and 600 hats, the money-tax remaining unaltered—the price of each would fall 50 per cent., from £1 to 10*s.*—the fund-holders would be enabled to purchase 200 pair of boots and 200 hats—their power of consuming would be doubled, but that of the producers would be augmented in an exactly equal proportion—they would retain 400 pair of boots, and 400 hats, instead of half that quantity, as in the former instance.

Having thus shewn that the evil complained of does not really exist, it may be well to cast a glance over the effects of the proposed remedy: it is plain, that, considered as a mere numerator, it matters not to the nation whether a sovereign exchanges for one sheep or two, provided that in the latter case all other commodities measured in gold are depressed in an equal proportion: it is plain also that the current expenses of the government, other than the fixed sums payable to the public creditor, would be augmented, should

the standard be lowered; all this will probably be granted; but then, it is said, that the public creditor gets more than he bargained for, and that mortgagees, lessors, and annuitants, are in a similar situation. To this it can only be replied, that when these parties entered upon their engagements, a clear understanding existed on both sides, that they were to be paid in the legal currency of the country, and that no deliberate attempt should be made to reduce its value; that most of them derive their rights from transactions anterior to 1797, or to the period when Bank notes became depreciated, and posterior to 1819, and that even as to those which accrued, during the period of depreciation, their peculiarity of character arose from the joint ignorance of government and people, that the persons in question always looked forward to a restoration of the standard, (which a formal act of the legislature declared should take place at a fixed period,) if they ever thought about it at all, and that to fine them now, because they or their predecessors made a good bargain thirty years ago, would be the height of injustice.

It is farther to be considered, that even allowing the truth of the unfounded assumption that an enormous appreciation of the currency has taken place, and that it would be desirable to place what has been quaintly termed the debtor interest in the situation it would have occupied,

had this appreciation never existed,—the plan of lowering the standard would still attain the object very imperfectly. In assuming any fixed rate of depreciation in the currency, we could only relieve those accurately who had previously suffered from a fall in commodities to the same extent; many others would still have the same reason to complain as they have now, and demands for a repetition of an operation, so convenient for those who dislike paying their debts at twenty shillings in the pound, would be endless. Besides this, it may be remarked, that whatever allowance could be claimed on a principle of justice for the losses of the "debtor interest" since 1819, must be admitted in favour of the "creditor interest," during the depreciation. As far as the public debt is concerned, the effect of such an adjustment has been accurately shewn by the calculations of Mr. Mushet, from which it appears, that the public gained almost as much by paying in a depreciated currency, between 1797 and 1819, as they had lost up to the time when his work was published.

It has been supposed hitherto, that although the standard should be reduced, the paper money was to be still convertible; but an inconvertible paper appears sometimes to be preferred; in that case we should have all the evils hitherto alluded to, and constant variations in the value of the currency besides.

The truth is, that the whole scheme is a plan of robbery, propounded with much circumlocution, and wrapped in many mystic phrases. It is a plan calculated to plunder all persons possessed of funded property, mortgages, annuities, deposits in the savings' banks, or with bankers, or who have insured their lives, and the members of all benefit societies; that is to say, those persons who, considered as a whole, form the most moral and intelligent part of the community: it would transfer to their neighbours a certain portion of their wealth, without adding a farthing to that of the nation at large. Its effect upon the condition of the working class would be peculiarly deplorable. A great stagnation in most branches of industry would take place in the first instance, from the shock given to the confidence of capitalists by so flagrant a violation of national faith. But even supposing this evil to be surmounted, *it would be long before* wages attained the same level compared with the objects on which they were expended as existed previously to the depreciation. This interval might, indeed, under certain circumstances, be prolonged for many years, during all which time the poor would suffer severe privations, deliberately inflicted upon them by the legislature. The supporters of the scheme declare, indeed, that this view of the case is incorrect, and that it would, if adopted, fill every body's pocket with

money, and greatly elevate the condition of the poor; but this is a mere gratuitous assertion, utterly unsupported by argument, and opposed alike to sound principles and the unerring voice of experience.

It must be remarked that the plan in question has nothing of novelty belonging to it—it has been a great favourite with bad governments in all ages, but has usually been abandoned so soon as the public became sufficiently enlightened to measure the acts of their rulers by even a rude standard of public utility; thus Henry VIII. was almost the last debaser of the coin in England, and Louis XIV. in France. There is still one country in Europe where the scheme is so frequently resorted to, that assuming the doctrines of the Birmingham Political Union on this subject to be well-founded, we might expect to find it a perfect paradise, replete with whatever can make existence desirable, and presenting wealth and profitable employment for the whole population. Alas for the theory of the depreciators! the country in question is Turkey, and the wise legislator whom they require the ruling powers here to imitate is Soldan Mahmoud.

Enough has been said upon the depreciation of the standard as a remedy for national distress. The next recommendation to be examined is what has been called an equitable adjustment: it proposes to send commissioners all through the

country with power to regulate every contract entered into since 1790, with reference to the average prices of wheat, mutton, and wool, during periods of about five years each.

Here again we have an assumption that the precious metals are an improper standard, and that we ought to resort to another instead of them; it is clear, however, that the one proposed wants almost every quality required for that purpose; in fact, notwithstanding the dispute between the late Mr. Cobbett and Mr. Attwood, the schemes they respectively advocate differ from each other but little in point of principle; considered practically, that of the latter is sufficiently easy of execution, whereas that of the former would meet with such insurmountable obstacles, that it is truly wonderful that its acute and able supporter should have ever contemplated its being carried into effect, as an event within the range of possibility; an attempt, indeed, might be made, immense confusion might be created, and a great deal of cruelty and injustice might be perpetrated, but a bonâ fide accomplishment of the so-called equitable adjustment extending over all transactions through a space of forty years is a mere theoretic dream.

Mr. Cobbett sometimes included in the plan now examined, the application of a sponge to the national debt; but this, whether expedient or inexpedient, a point which may be safely left to

the plain sense and honest principles of the reader, has no necessary connexion with it. Considered as a measure of finance, it does not possess the merit of novelty, having been resorted to by tyrants and oppressors at all times. The non-payment of debts is a very plain and easy method of relieving an embarrassed Exchequer.

The next scheme for the improvement of our monetary system is that which proposes to establish what has been called a free trade in banking; its first requisite, of course, is the abolition of the partial monopoly now possessed by the Bank of England, and its supporters usually contemplate the gradual extinction of the country bankers as issuers of paper, and desire to see the currency supplied by joint-stock banks acting on a principle of competition.

The unfavourable notions associated with the term monopoly have greatly contributed to confer popularity on the permission of unlimited competition among the issuers of paper money; it is necessary, then, once more to recollect that monopolies are only inexpedient when opposed to the common interest, as happens in a vast majority of cases; if coinciding with the common interest, they of course merit our approbation. The usual objection to monopolies is, that they furnish a commodity dearer or worse, or both, than would be supplied under a system of free trade; but this objection does not apply to the

case of a body which possesses peculiar privileges in the issue of paper money. A paper currency is more or less perfect in proportion as it possesses the three properties enumerated in the first Section, viz. equality in amount at every moment with the coin that might circulate in its place—freedom from discredit—convertibility. The following considerations will shew that these qualities, on the whole, are more likely to belong to the issues of one body than of many—cheapness and fitness, in the highest degree, to perform the required functions are included in them.

It has been seen that the exchanges are the only real criterion of the state of the currency, and that all others are fallacious. The managers of one issuing establishment, supposing all their proceedings to be made public, would be placed under a feeling of responsibility, which would render it almost impossible for them wholly to forget even for a moment this great truth; but supposing, instead of one, we have ten or a hundred banks, the responsibility is so divided as to become completely inefficient—the loss and inconvenience of over issues does not always fall upon the peccant bank, but upon its neighbours, and thus at periods of advancing prices, which ought, in a natural state of things, to be checked by a currency little if at all expansive, we find invariably a large increase in the issues of small banks, which foster a morbid spirit of specula-

tion, and thus lead to immense evil when the recoil takes place.

It is imagined that the plan of exchanging notes between the banks at certain fixed periods is sufficient to prevent over-issue on the part of any one of them; but let us suppose, as is usually the case, that the tendency to over-issue is simultaneous and common to all or to a majority, it is plain that this measure can afford no sufficient protection; even should the error be confined to a single bank, and that bank be considered by the public to deserve confidence, the over-issue, though restrained, will not be prevented—the check can, of course, only apply to those notes which pass into the hands of other banks; but besides these there is a great quantity in the tills of tradesmen, and the pockets of the public at large, on which it has no effect whatever. It is thus that some years ago a new bank at Edinburgh is said to have established, within two years, a very extensive circulation, in spite of the united and most determined opposition of all those previously existing.

Colonel Torrens in his Letter to Lord Melbourne maintains, somewhat in opposition to these views, that the Bank of England at present has the immediate power of preventing over-issues on the part of its provincial brethren; those who agree with him are referred to the opposing testimony contained in the tabular statements of

the issues of the Bank of England and joint-stock and country banks, presented at p. 77. Even this statement affords a result far short of the truth, taking the three kingdoms into account. We may be certain that Scotland contributed largely to swell the excess, although unfortunately we are deprived of the means of ascertaining to what amount. The truth appears to be that, Colonel Torrens's general principles are correct, but their operation is far less immediate than he imagines. He does not allow enough for friction; in other words, a considerable period may elapse before the check arising from the exportation of the precious metals, and the consequent return of notes, is felt. When indeed there are many issuing banks, this check can never be felt immediately by more than a few. In England it is only felt by one, which is *de facto* charged with providing a metallic basis for the whole currency.

It is difficult to explain fully and satisfactorily the nature of the friction above alluded to. The great increase of auxiliary currency during periods of high prices and commercial excitement, will afford, in a great degree, a solution of the difficulty. Thus, let us suppose an over-issue on the part of the provincial banks, that of the Bank of England remaining at the proper amount. Bills of exchange in large quantities, payable in London, will be drawn by sellers on purchasers at Liverpool, Manchester, &c. &c. These, to a

certain extent, will balance and discharge each other, and will at any rate prolong the time at which the state of prices out of London is to be tested by the state of the metropolitan currency, to which, however, these must finally adjust themselves.

Again, the prices of many articles of indispensable necessity, under ordinary circumstances, will be a little higher in a vast city than in smaller towns or the country, owing to the expense of transport; an obstacle is thus opposed to the ordinary course of equalizing the currency under the circumstances supposed, viz. a transmission of goods from the former to the latter. It must be left to the reader to decide if the above remarks help to explain what he will hereafter find to be an indubitable fact. Any further discussion would occupy too much space here. But to return to the point from which the remarks on Colonel Torrens's arguments have led us.

Even assuming that a number of banks could be found, all of them disposed to conduct their business perfectly well; that there should not exist even one among the number, which, allured by the prospects of immediate gain, or the desire of under-working a rival, should increase its issues imprudently; supposing all this, still the effect would merely be, that we should be as well off as with a single issuer, but no better. Now is the chance of our attaining so very improbable

a result sufficient to induce us to incur the enormous risk of a failure?

It must never be forgotten that all the objections here made to the principle of competition apply merely to the issuing of paper. Any thing like interference on the part of the government by exclusive privileges or otherwise in the true and legitimate objects of banking is equally injurious and unjust.

All the arguments hitherto urged against the scheme of unlimited competition, suppose it to be rendered as perfect as possible, by compelling all issuers of paper to give security for their circulation, and to publish their accounts, which might render their notes almost, if not quite, as free from objection on the score of freedom from discredit, and ultimate convertibility, or at least solvency, as those of a single establishment would be. But if we suppose, as is the case at present in England, that neither security nor effective publicity should be enforced, the evil would be increased prodigiously. These regulations would do away with even the shadow of a reason for making any difference between the business of banking and any other commercial undertakings, with respect to the limited or unlimited liability of partners. Under any circumstances, indeed, it seems inexpedient, as regards the public, and unjust as regards private bankers, to favour especially joint-stock banks, by making a particular law in their behalf. Partnerships "en common-

dite," and " sociétés anonymes," to use the language of the French law, should be allowed universally or not at all.

" Competition in the issue of paper money " has never been tried to an unlimited extent " except in one instance, that of the United " States, and the able publication of Mr. Gallatin will inform us of the success with which " the experiment was attended. It is to be observed, that in America the publicity of accounts is generally enforced, and although no " security is taken, yet all the banks, with one " exception, to which Mr. Gallatin alludes, were " chartered, and their paid-up capitals were " considered sufficient to guard against any " danger of insolvency; in most instances the " responsibility of shareholders seems to have " been unlimited. Yet in the period more particularly adverted to, viz. between 1811, when " the first bank of the United States was dissolved, and 1816, when the existing bank " was established, nothing could be less satisfactory than the state of the circulation. In " August and September, 1814, all the banks, " south and west of New England, stopped payment in consequence of excessive issues, " which brought the notes, or a large proportion " of them, to a discount; and an undue spirit " of speculation was fostered, subsequently " productive of great calamity, when specie " payments were restored; — at length these

" evils became so monstrous, that a wish to re-
" establish one general centre of circulation was
" forced on the public mind, and produced the
" existing bank of the United States, chartered
" in April, 1816, which has amply fulfilled all
" that was expected from it, having served as a
" check to the proceedings of other companies,
" equalized and given solidity to the currencies
" of the several States, and afforded by means
" of its branches secure places of deposit, and
" cheap and rapid means of transmitting money
" between every part of the Union, as well as
" between America and Europe. The charter
" of this bank will expire in 1836, and the
" President, Jackson, has put his veto on a bill
" which had passed both Houses of Congress
" for its renewal. It may be safely predicted,
" that should this renewal finally be refused, a
" state of things will return similar in kind to
" what occurred between 1811 and 1816, though
" not perhaps in degree, because the evil was
" then doubtless aggravated by the war with
" Great Britain, and by a less general enforce-
" ment than at present of publicity of accounts.
" Mr. Gallatin mentions, that in all the New-
" England States, in Virginia, Georgia, and
" some others, publicity of accounts is now
" prescribed by law, and that it had never in-
" jured any institution properly conducted. Be-
" tween the 1st July, 1811, and the 1st July, 1830,

" 165 banks failed in the United States; their " joint capital was about thirty millions of dol- " lars; that belonging to the state banks now " in existence being about 110 millions. The " amount of loss incurred by the creditors in " general was very large, but has not been as- " certained—that of the government alone was " about four millions. So great have been the " evils arising from the bank issues in the Union, " that they seem to make Mr. Gallatin wish, on " the whole, that no paper circulation whatever " had been allowed, though he is well aware of " the advantages which belong to it."

The above paragraph has been left in the state in which it was originally printed, although not published, as explained in the prefatory notice, in the early part of 1833, and is now inserted—not to gratify the vanity of the Author by presenting him in the character of a prophet, but as shewing that the disastrous phænomena which have lately occurred on the other side the Atlantic, are no more than might have been anticipated from the principles he has endeavoured to explain. The evidence they afford is particularly valuable in a point of view hitherto little adverted to by writers on currency. Alarmed by the losses sustained by the creditors of the Banks which failed between 1811 and 1816, the Americans have generally compelled the chartered banks since established to furnish

large paid-up capitals, and have made almost unlimited publicity a condition of their existence. These precautions will probably secure in a great majority of instances, the discharge of their liabilities some time or other. There will be but little ultimate insolvency, yet almost absolute certainty on this point, even such a degree of certainty as in the case of the United States Bank at Philadelphia with its eight millions sterling of capital, it would be madness to deny, did not at the hour of trial secure the immediate convertibility of their issues.

It may here be remarked as a curious fact, that at the instant when the stoppage of the American Banks took place in 1837, a depreciation of the paper-currency appeared exceeding 10 per cent, and that in cases where ultimate loss was not to be feared by the most timid. From this it may be inferred, that, in spite of the check arising from the foreign exchanges, a mixed currency may be depreciated to that extent under certain circumstances, when issued and regulated on erroneous principles.

It is impossible to abandon this subject without a passing observation on the remedial measures lately under the consideration of Congress, if not already sanctioned by it. These were alike unworthy of the government that proposed and of the legislature that debated upon them. It is really monstrous to look only to the possible

loss of a few millions of dollars, by a government which has a surplus revenue so large as to be a heavy incumbrance; while no measures are even proposed for a radical improvement in the currency, the state of which has lately produced such mighty disasters. Such is the effect of ignorance and party spirit combined. Supposing the cabinet of Washington to be sustained in its views by the representatives of the American people, and that the Union is left to be supplied with a paper currency by an unlimited number of banks, acting in competition, and without any controul from the action of one powerful central body, we may anticipate with certainty a succession of catastrophes such as we have lately seen, occurring at intervals more or less distant, according to circumstances — but perhaps one more example may suffice, to convince the most obdurate Jacksonian.

Had the year 1825 or 1836 found the United Kingdom with a currency furnished by three or four hundred joint-stock and private banks, a large number of them in operation in London, and without the controul of one great body like the Bank of England, it is the Author's firm conviction, which his love of truth makes it his duty to state, in spite of the delicacy of his position, that in both cases a large majority, if not the whole, however ultimately solvent, would have been found wanting in the hour of need,

in other words would have stopped payment; but to return from this digression.

The example of Scotland is one which produces a great effect on the public mind with reference to the question now under discussion. The general solidity of the Banks in that country is an admirable feature, and they fairly deserve all the admiration that has been lavished on them as secure places of deposit, and much praise for the way in which they perform the proper business of Banking; the only fair exception under this head being, perhaps, the so much lauded cash credits, which seem very nearly analogous to the discount of accommodation-bills, and calculated to produce the same results. In periods of excitement and rising prices they stimulate speculation unduly, and afford a spectacle of specious and factitious prosperity; while, when the recoil takes place they sweep the solvent and comparatively prudent trader into the same net with the rash adventurer, and lead to awful and wide-spread ruin. Perhaps it is chiefly owing to them that, in periods of commercial difficulty, no country is said to suffer from insolvency more severely than Scotland. Manchester, where banks of issue have never existed, until recently and then to a small extent, furnishes, in this respect, an interesting and instructive contrast. It is, however, as issuers of paper money that the Scotch Banks are chiefly open to criti-

cism. They do not keep any considerable reserves of gold, relying always on the Bank of England for a supply. It is plain that this mode of operation would be considerably modified, were they exposed to the immediate test of specie payments; but in other respects their conduct is highly exceptionable. In times of prosperity they push out their notes and credits to an undue extent, and are consequently compelled to diminish them as violently, when circumstances alter, thus inflicting on the public oscillations in the currency much more violent than could occur with a metallic circulation, or with paper regulated on sound principles. Supposing such banks to be acting in London and exposed to the direct operation of the foreign exchanges, we might certainly expect greater prudence on their part. Still the inherent vice of issues made in competition and upon securities bearing interest, would exist. The paper would have a tendency to increase when the rate of interest or when prices rose, and to be unduly contracted, when prices and the rate of interest had fallen; the country could not be better off than with a single source of issue in the capital, and, there is every reason to believe, would be much worse off.

The next proposed improvement which demands our consideration is one which has often been suggested. It consists in the extinction of the Bank of England and all other banks of issue,

and proposes to fill up the vacancy occasioned by the withdrawal of their notes by an inconvertible Government paper, without any reduction of the standard.

Against this scheme it may be objected, that it could yield no greater profit to the community than a well-regulated convertible currency, and would be exposed to some peculiar inconveniences.

The transactions of individuals, guided by the exchanges, test exactly the quantity of the paper circulation, under a good system ; at every moment they keep it to the proper amount. Under the supposed scheme we should, indeed, have the exchanges for our guide, but they would not of themselves, and by their own action, regulate the issues ; that delicate operation would be left to the Government Commissioners, and would necessarily be more imperfectly performed. If an attempt were made at all times to circulate the greatest possible quantity of inconvertible paper, and to vary its amount according to circumstances, it cannot be doubted but that occasionally the notes would be depreciated more or less from excess ; at other periods they might be deficient, and thus the public be exposed to the evils of a currency and standard unnecessarily subject to fluctuation. In order to avoid this evil, it would be prudent to fix the amount of inconvertible paper within the minimum of the

convertible paper which might otherwise circulate; in which case it is clear that nothing would be gained in the way of profit by the employment of the former beyond what would be yielded by the latter. In times of political discredit, an inability to pay in specie on the part of the best-regulated Bank of Issue, making a profit of its circulation, is always possible. Under similar circumstances, an inconvertible circulation would be depreciated—there would be two prices, one in paper, the other in coin. Altogether, though founded in a great degree on correct principles, this plan seems to present many, great, and almost insuperable inconveniences.

Another suggestion made for the improvement of the currency has been, that the Government should be authorized on certain special occasions to issue securities in the nature of Exchequer-bills, which might possess the public confidence in a higher degree than any part of the existing circulation, and thus alleviate an accidental panic. It is sufficiently plain that an issue of such a nature would be eminently inconvenient, inasmuch as it would involve the necessity of calculating the interest every time that a bill changed hands. And it seems inconceivable that it could be less liable to discredit than Bank of England notes, which, in consequence of the large debt always due from the Government to the Bank, must be considered Government paper so far as

regards security. Thus, then, since the Charter has been renewed, it may be safely affirmed that this scheme would prove useless, and of course inexpedient; but should a perfectly free competition in the supply of paper money be allowed, it is very probable that some measure of this kind would occasionally be found desirable. Under such circumstances we might expect, from time to time, periods of mercantile discredit, which would apply to the whole or the majority of the existing Banks; their notes would be returned to them and a vacuum created, similar to what occurred in December 1825, which an issue of paper bearing the guarantee of the Government might to a certain degree fill up, though not with such facility or advantage as Bank of England notes. It must not be forgotten that, during the panic, Exchequer-bills were at a discount.

A re-issue of £1 and £2 notes is with some persons a sure remedy for all commercial distress. The reason given for their efficiency in this way is, that they would raise prices, or render it more easy to borrow. On the first point, it must be remarked, that, being by the supposition convertible, they could never fall below the value of the gold for which they might be exchanged at the will of the holder, and that the sole effect on prices which the largest issue of them could produce, would arise from the letting loose the sovereigns they might displace, and allowing them to

swell the disposable stock of bullion in the world. It must be allowed that in this way a certain fall in the value of gold would be produced ; but it is equally certain, looking to the variations of the agio at Paris during the last twenty years, that in point of extent it would be hardly appreciable. So much for the influence of £1 and £2 notes on general prices. In respect to the facilities which they might offer in the obtaining of loans, it must be recollected that, where people borrow, it is not usually money, but capital, they want,—that the issuer of paper creates no capital whatever, but merely lends his credit, upon which the holder of his notes is enabled to obtain the capital of other people, or whatever commodities he may require,—that thus, no greater amount on the whole is disposable in consequence of his operations. Some difference, however, in the distribution there will probably be, and it need not be disputed but that certain persons did formerly, and, perhaps, should small notes be re-issued, would again obtain accommodation, which they are now deprived of. It may, however, be greatly doubted whether, at the present moment, any considerable number of people are to be found, who deserve credit and cannot readily obtain it. The rate of interest is surely sufficiently low, for those who have security to give ; those who are in a less fortunate situation ought not to be able to borrow

readily, at least not at or under the legal rate of interest.

On the whole, supposing the existence of a perfect system of paper currency, such as has been proposed in the first Section, there appears no sufficient reason, except from the danger of forgery, why £1 and £2 notes should not form a part of it. They would be cheaper and more convenient than gold; but as things now are and probably will be, it seems, on the whole, inexpedient to restore the small notes. They are peculiarly liable to excess and to discredit, and are thus very dangerous to the issuers, while the continuance of a large stock of gold in the general mass of our currency seems, under present circumstances, highly desirable.

The next schemes which demand attention are those for changing the standard from gold to silver, or for creating a double standard, as has been so strongly urged by Lord Ashburton. Some of the persons who advocate them really mean to produce a depreciation, though they do not always say so. Enough has been already remarked upon the injustice and impolicy of that measure, and in the following observations it will therefore be assumed, that no such object is in contemplation, that it is only meant to alter the nature of the standard, without lowering it.

The great and indeed only benefit arising from a silver standard is one of convenience,—

that metal being adopted as the basis of circulation in every country except England, we are now deprived of the advantage of a fixed par of exchange with any, and a certain degree of difficulty and uncertainty is thus imposed on persons engaged in mercantile transactions, as well as on the Bank of England, and the other issuers of currency. This inconvenience might have rendered it desirable, when cash payments were resumed, to have made Bank-notes payable in silver instead of gold, but is not of sufficient importance to make an alteration at present advisable, especially as that measure would render it necessary to re-coin all the silver now in circulation, at a loss to the Government of many hundred thousand pounds, or to enact that a greater weight of metal than twenty of the current shillings should form the new pound sterling, in which case the holders would suffer a loss of the difference between the current and the real value, and great difficulty be felt from the introduction of inconvenient fractions into every account. It may be farther remarked that, in consequence of the immense transactions of the Bank, gold in all probability would still be usually employed as at present, and that the calculations of an agio, constantly varying, would open a new source of perplexity to the public.

The introduction of silver as a joint standard with gold appears to be recommended chiefly

because it is supposed that, in times of pressure, the Bank might derive facilities from being enabled to pay in either, and might be the better enabled to combat the efforts of great capitalists and speculators on the exchanges, whose interest might lead them to embarrass it by intercepting or withholding supplies of gold. Upon this it may be remarked, in the first place, that the supplies of bullion are derived from so many sources and attainable with so much facility, that it would be out of the power of any particular individuals, even if so disposed, to effect their object, except momentarily, and to an inconsiderable extent, and that even at present, the silver in the hands of the Bank is almost as useful in correcting an unfavourable exchange as gold would be, the only difference being, that occasionally, and for a short period, a specific demand arises for the latter usually connected with political causes. In case of an internal demand for sovereigns, silver can always be employed to purchase the metal from which they are to be coined, and in case of need, the operation could be completed with great rapidity. The above are chiefly objections to the plan for a mixed standard, considered in point of detail; but there are others which shew it to be inconsistent with sound economical principles.

There can never be at any one time more than one real standard, because the debtor will of course pay in the cheapest medium which the

law allows him. The effect of a double standard would in all probability be to depreciate the currency. Whenever the metal newly introduced, silver for instance, was dearer than gold, payments would still be made in the latter, and the new regulation would produce no real effect. But if in the course of time silver became a cheaper medium of payment than gold, it would instantly be adopted as such, and so continue, until gold perhaps once more fell below silver, and resumed its former place as the medium of payment; in both cases debts would be discharged upon lower terms, than if they had been paid in currency of the previous standard.

Thus it appears that a double standard, by giving two chances of a fall in value to the debtor instead of one, must tend in the long run to enable him to discharge his obligations on lower terms than a single one, in other words will probably depreciate the standard: but it would also tend from the counteracting agency of the second metal, to check the effect of any rise in the first metal, and thus give the standard a greater degree of steadiness, though at a lower range of value. On the whole it would seem that the advantage of the plan is not sufficient to render a change desirable.

SECTION III.

REMARKS ON THE LATE AND PREVIOUS PERIODS OF COMMERCIAL DISTRESS CONNECTED WITH DERANGEMENTS IN THE CURRENCY.

The most remarkable periods of commercial distress connected with derangement of the currency, in recent times, have been those of 1792, 1810, 1816, 1825, and 1836. The earliest of these seems to have been considered at the time as a sort of natural visitation, without provoking any deep inquiry into its causes; but the second nearly coincided with the celebrated Report of the Bullion Committee, which first directed the public attention to the state of the Currency, and threw a clear and steady light on that before neglected subject. It does not, however, appear that any body imagined the abortive speculations and bankruptcies of that year to have arisen from the over-issue, and consequent depreciation, of Bank-notes; nor did such an opinion prevail with respect to the disasters of 1816. The discussions, however, on Peel's Bill gave new

importance to the Currency, and in 1825 bank-notes had become the whole and sole agent, upon the right management of which the weal or woe of the trading community mainly depended: this opinion, though not perhaps explicitly adopted by any author of great repute, yet received apparent support from many. From that time it became popular, and is now carried so far that the entire regulation of the Currency, being supposed to rest upon the Bank of England, men are found to throw upon that body alone the blame of originating every ill-directed or exaggerated access of the spirit of speculation.

The reader will recollect, from what was stated at the commencement of the second Section, that the Author does not participate in this opinion. The evils of an imperfect and ill-managed Currency are, indeed, great, but still less overwhelming than many imagine. To suppose that, with a Currency purely metallic, or with a paper-circulation managed on such correctly scientific principles as to be exactly equivalent to it in all its attributes except superior cheapness and convenience, we should have no periods of commercial distress; that the trading world would never have to see their calling pass through the cycle of changes which Mr. Loyd so well describes, is to say, in other words, that a majority of all merchants, manu-

facturers, farmers, and other traders are always perfectly wise and prudent, or that a well-managed Currency is a sovereign remedy for their errors and mistakes. The first proposition being abandoned as untenable, we will devote a little attention to the second.

Nobody can deny that discredit and insolvency on the part of the issuers of paper-money must inflict a serious injury on commerce, and most persons will allow that a mixed Currency, though, generally speaking, secure and convertible, which at particular periods shall vary in amount from the metallic currency which might supply its place, is a source of very considerable evil. The question is as to the quantum of this evil; and here, unfortunately, we have no experience to guide us. France, indeed, and some other countries possess currencies which may be considered as metallic; and the first has suffered less from the hot and cold fits of the commercial fever than England or America. But then her trade is far less extensive, and its relations less complicated; and, for this and other reasons, a fair parallel between them cannot be drawn. Holland, before the Revolution, might have furnished better evidence; but the Author knows not the source whence it is to be drawn. Such a history of the commerce of the Seven Provinces as would furnish it does not exist, or has never reached him. In default

of direct testimony, then, let us examine the periods of commercial distress that have occurred during the last generation, and see if in each of them causes did not exist, wholly independent of the currency, sufficient to account for a large portion of their evils.

In 1810 we had the license trade, the spirit of gambling and demoralization it occasioned, the opening new channels of communication in the place of old, enormous profits for a time :—in 1816, the close of the artificial emporia created by the war, the return of trade to ancient seats, every thing was new, every thing to be re-created, errors and miscalculations of all kinds were inevitable :—in 1825, we had the recoil from the very low prices of 1822, the independence of the Spanish American colonies, with all the exaggerated notions of their vast wealth, and, to omit minor agents, a sort of epidemic vertigo, the origin of which it were vain to assign to a particular cause.

The crisis of 1836 was more partial than any that had preceded it; indeed it presented but little more derangement than may be expected to occur every five or six years, except what the opening the trade with China and our relations with America will fully explain. In all these cases the mismanagement of the paper currency prolonged and intensified the evils which would have existed without it, but did not altogether

occasion them. In America itself, this mismanagement was carried to the highest pitch, and there the substratum was to be found in the great and rapid advancement of the giant Republic, and to use Mr. Loyd's phraseology,—" the improvement, the growing confidence, and " the prosperity" long continued and carried to an extent, which to sanguine men exhibited no bounds.

However, after all due limitation, and the correction of the extravagances of public opinion, there can be no doubt that the stream of commerce would run far more smoothly with a good system of paper money than a bad one, and that the evils felt in each of the periods above alluded to were augmented by an imperfect currency; the effect of which appears, in truth, to be, to exaggerate a state of things arising from other causes, but rarely to originate it. The general excitement calls for enlarged issues, and these large issues sustain prices above their proper level, until the bubble bursts; then the nature of the evil changes, issues are too hastily contracted, discredit is extended and prolonged unnecessarily, and prices fall to an undue extent, and continue low longer than they ought before the equilibrium is restored. There is thus a cycle of action and re-action.

It being then allowed that the evils of periods of commercial distress have been augmented,

though not wholly occasioned by the nature of the medium of exchange and the conduct of its managers, it may be useful to conclude this section with a short review of the accusations that have been brought against the Bank of England and the Joint-Stock and Private Banks for the course pursued by them during the few years ending with 1836.

The following tabular statement will afford the best materials for guiding our judgment.

Date.	Average Circulation Bank of England.	England. Joint-Stock and Private Banks. Aggregate Circulation.	Ireland. Average Amount of Notes half-yearly, on which Composition is paid by Joint-Stock Banks, and actual circulation, Bank of Ireland.	Total.	Treasure, Bank of England.
28th Dec. 1833	£ 17,469,000	£ 10,152,000	£ 5,081,000	£ 32,702,000	£ 10,200,000
29th Mar. 1834	18,544,000	10,191,000	....	....	8,753,000
28th June, ,,	18,689,000	10,518,000	5,036,000	34,243,000	8,885,000
27th Sept. ,,	18,437,000	10,154,000	....	....	6,917,000
28th Dec. ,,	17,070,000	10,659,000	5,250,000	32,979,000	6,978,000
28th Mar. 1835	18,152,000	10,420,000	....	....	6,295,000
27th June, ,,	17,637,000	10,939,000	5,140,000	33,716,000	6,613,000
26th Sept. ,,	17,320,000	10,420,000	....	....	6,284,000
26th Dec. ,,	16,564,000	11,134,000	5,334,000	33,032,000	7,718,000
26th Mar. 1836	17,669,000	11,447,000	....	....	8,014,000
25th June, ,,	17,184,000	12,202,000	5,629,000	35,015,000	6,868,000
20th Sept. ,,	18,147,000	11,733,000	....	....	5,719,000
13th Dec. ,,	17,361,000	12,011,000	5,864,000	35,236,000	4,445,000

Note.—The dates in the returns of the Bank of England Circulation do not exactly agree with those of the other Banks; but the difference in time never exceeds a few days. The Parliamentary papers do not furnish materials for a more accurate comparison.

It must be remarked upon this table, that it does not in the latter periods referred to give a correct notion of the diminution in the issues of the Bank of England, because, during 1834, 5, and 6, contracts were successively entered into for the substitution of Bank of England notes for those of private issuers. On this point the reader is referred to page 16 of Mr. Palmer's first pamphlet. The increase in the branch circulation there shewn was the consequence of these contracts, and ought to have diminished the private issues pro tanto.

The low circulation at the close of 1835 was connected with the operation of the West India Loan.

The above table, which it would be most interesting and useful to complete by adding the circulation of the Scotch Banks for the several corresponding periods, if the requisite returns had been laid before Parliament, certainly evinces by a superfluity of evidence that none of the banks whose issues are comprehended in it have conformed to the strict rule; that their issues should be at every moment of precisely the same value as the metallic medium, which might supply their places, being increased and diminished under the same circumstances at similar periods and to a like extent. If not to have attained this degree of perfection subjects them to blame, from blame they cannot escape; but a

calm review of the situation in which they have been placed will shew, that their errors are less imputable to ignorance or ill-will, than to their respective positions, or at any rate that they are less flagrant than is commonly imagined.

We will examine the accusations brought forward a little in detail, and first those directed against the Bank of England. Setting newspaper critics aside, the most formidable accusers of the Bank Directors are Colonel Torrens and Mr. Loyd, both of whom object generally, that sufficient attention has not been paid to the state of the exchanges, and that the issues have not varied as a metallic currency would have naturally varied. They both of course allege by implication that the Bank Court was pledged to govern its conduct according to the above standard. But such was not the case. The principle laid down by Mr. Palmer and others in their evidence before the committee of 1832, was this, that at a period of full currency the Bank endeavoured to hold an amount of treasure equal to about one-third of its circulation and deposits, and the remaining two-thirds in securities, and to keep this amount of securities unchanged during the efflux of treasure consequent upon a period of low exchanges, so that the diminution of coin and bullion might be accompanied by a corresponding reduction of liabilities, viz. circulation and deposits.

This principle obtained the express or tacit approval of the Government, of Parliament, and the public at large, and with reference to it, and it alone, the authorities of the Bank ought to be judged. They did not imagine, as Colonel Torrens seems to suppose, that a reduction of deposits was equivalent to a reduction of circulation, or that consequently their principle was perfect; they knew its weak point, viz. that it allowed an adverse exchange to be met by a diminution of deposits, a favourable exchange by an increase of deposits, instead of by a diminution or increase of the circulation; but they propounded it because it was the best, the easiest to be explained and acted upon, that they could venture to bring forward or hope to maintain; as such, it was received by those to whose judgment they are bound to conform, and having thus obtained all the sanctions which the circumstances of the case permitted, surely the Directors are not to be blamed for having violated another and different law to which they never pretended to be subject. Those who thus blame them ought to have enforced on them, the public, and the Government, a more perfect system, at the time the present was adopted.

This view of the subject being agreed to, it remains to be seen how much the Bank has really deviated from its principle. It must be premised that under it, reckoning the rest or undi-

vided profit at about three millions, twenty-four millions of securities might fairly be held. Now the average quarterly amount really held as stated by Mr. Horsley Palmer, deducting the investments for the West India loan, and the money belonging to the East India Company, upon which a few words will be said presently, was as follows :—

1833.	1st October······	£24,200,000
	31st ,, ······	23,600,000
1834.	1st April········	23,500,000
	1st July ········	22,600,000
	30th September····	24,900,000
	30th December····	23,400,000
1835.	31st March ······	25,100,000
	30th June ········	23,800,000
	29th September ··	22,900,000
	29th December····	22,000,000
1836.	29th March ······	22,000,000*
	28th June········	22,600,000
	27th September ··	24,800,000
	27th December····	25,000,000

The largest deviation in more than three years appears then never to have exceeded two millions, or 10 per cent., and that from circumstances connected with the West-India Loan, in the autumn of 1835, which it would take up too much room to explain, but which deprived it of any great degree of culpability; at other periods the devia-

* There was here a clerical error of £2,000,000 in Mr. Palmer's Table.

tion did not exceed 7, and was seldom even 5 per cent.

Most readers will allow that an exact conformity to the principle in question is impossible,—setting aside other disturbing influences, the varying amount of deficiency bills will effect the amount of securities from quarter to quarter, and cannot be conveniently counteracted.

But Mr. Loyd remarks upon the above statement of securities held by the Bank, that it is an arbitrary mode of making up an account to produce a desired result; implying of course that the securities held against the money belonging to the East-India Company, and that paid in on account of the West-India Loan, and subsequently lent by the Bank, ought to be considered as a portion of the securities, to which the recognized principle of management is applicable, and that consequently the whole or published amount of securities, as being irregular, and often much larger than twenty-four millions, evinced on the part of the Bank of England a great deviation from this principle.

Now it must be recollected that the sum of twenty-four millions was assumed as the proper amount to be held in securities upon a view of an amount of circulation and deposits, of which the deposits in question formed no part, and when their existence was not even contemplated. Owing to the realization of the Company's commercial

assets, its balance very greatly exceeded the usual amount, and the East-India Directors naturally determined to make the excess productive. The Bank borrowed and employed this excess for fixed periods, taking care that the money-dealers to whom it was lent should be pledged to re-payment at the precise moment when the money was wanted by the authorities in Leadenhall-street. It was considered, and surely with reason, that by taking the entire management of this kind of transaction, the Bank would insure the least possible interference with the currency and money-market, especially as the India Company is unused to such affairs. Had the Bank taken the money, paid interest for it, and not re-loaned it, for the sake of apparently, but not really adhering to its principle of management, and the amount of securities originally fixed in accordance with it, viz. twenty-four millions, a sum amounting sometimes to three or four millions would have been abstracted unnaturally from the currency of the metropolis, to the serious inconvenience of the public.

The reasoning applicable to the employment of the Company's money tells with increased force on that derived from the West-India loan. Had the Bank determined to hold to the fixed amount of securities in the autumn of 1835, the consequence would have been that almost the whole currency of the metropolis would have

been found within its coffers. We may be told that this could not have happened; that the notes would have oozed out through the discount-office to a greater or less extent, and the amount of securities been *pro tanto* augmented; this is doubtless true; but would not such a forced action have interfered materially with the natural play of the currency and the ordinary affairs of business, while hardly any inconvenience was felt under the course pursued, viz. an offer of advances at a rate of interest calculated to call for, and which did indeed call for nearly the exact amount of the loan, such advances being repayable at the periods when the compensation was to be disbursed to the proprietors of slaves. The whole transaction thus described appears to be creditable to the Bank, rather than deserving of blame; and it seems equally clear that Mr. Palmer was fully justified in omitting all reference to the West-India loan, as well as to the India Company's extra deposits, in his statement of securities.

We must finally recollect that the sum of twenty-four millions was recognized as the amount to be held in securities, on certain data, say about thirty-one millions in circulation and deposits, and three millions of rest or surplus capital; but it is clear that these data would have required to be reviewed after the lapse of a few years; nobody could imagine that the amount was to be

invariable. A complete oscillation in the currency, that is to say, a period commonly of three to five years, would usually be followed by a state of things requiring a re-adjustment. At present it may be doubted if the Bank can properly fix its amount of securities at more than from twenty-two to twenty-three millions, viz. about nineteen millions for two-thirds of twenty-nine millions of circulation, and deposits, and three millions of rest.

The above observations on the conduct of the Bank will, it is hoped, relieve the Directors from a large portion if not the whole of the blame which has been cast upon them for deviating apparently from the principle of holding a fixed amount of securities; and here it may be remarked that Colonel Torrens allows them to have been passably consistent in this respect.

Other accusations of minor importance have been brought against them, which would occupy too much space, and be foreign to a work, the object of which is to explain the principles of currency, and suggest improvements in our existing system of circulation. One or two points, especially the insufficiency of the published accounts of the Bank, animadverted on by Mr. Loyd, will be noticed hereafter—at present it may suffice to say that they are such as the law prescribes.

Let us now examine the conduct of the joint-stock and private banks as issuing bodies. A

reference to the table, at page 77, will shew that their deviation from sound principle has been of an extensive kind. To omit other instances of it, between March and June 1836 the private issuers in England, in defiance of a generally adverse exchange, a diminution of treasure in the coffers of the Bank, and of the Bank circulation, augmented their notes £755,000, or about $6\frac{1}{2}$ per cent. viz. from £11,447,000 to £12,202,000. The Irish joint-stock and private banks were still more extravagant; for, comparing the half-years ending June 1835 and June 1836, they increased their circulation from £1,713,000 to ££2,291,000, or about 30 per cent. The Bank of Ireland did not participate in this error.

The public has no means of subjecting the Scotch Banks to the same ordeal which has been applied to their English and Irish brethren; but we may feel perfectly assured that, were their accounts published, they would exhibit equally glaring evidence of a deviation from sound principle.

It is clear then that joint-stock banks and private banks manage the part of their business which consists in issuing notes very badly, so far as the public interest is concerned; but though their errors in this respect are sufficiently manifest, it does not therefore follow that the opprobrium cast upon them is well founded. There has been no legal duty imposed upon them with

respect to the mode in which their circulation should be conducted other than that of discharging their obligations in gold or Bank-of-England notes. They have been left to act upon their own views of their own interest; these views, sometimes well, sometimes ill-founded, have indeed led them astray, so far as the good of the country is concerned, but then surely we ought to blame the Legislature, which has forborne to prescribe or enforce any particular line of action, rather than persons, who, left to their free agency, naturally imagined themselves fully justified in following the only principle which seemed applicable to their case, viz. that of obtaining the largest possible profit.

Indeed, when it is considered that during a period of very severe pressure prolonged for many months, only two joint-stock banks, and very few private bankers stopped payment and that the creditors of the former will probably lose nothing, it would seem that the private issuers deserve much praise rather than blame for their conduct during the late hurricane in the money-market.

This view of the subject is strengthened when it is considered that they neither had nor have any easy and correct method of adjusting their circulation, so as to make it vary as a metallic circulation would vary. The accounts published by the Bank may not be sufficiently explicit;

but, even after they had been rendered as complete as the greatest admirer of publicity would ask for or desire, still it appears impossible for a private issuer to devise any practical plan for the regulation of his currency fully calculated to attain the end in view. Even the most expert economists at the head of a joint-stock company could hardly do more than watch the circulation of the Bank and the ingress and egress of treasure into or out of its coffers, and strive to extend or contract their issues accordingly. It is surely visionary to expect even as much as this from a vast majority of the issuing bodies, now established in the three kingdoms, especially when they are wealthy, and holding a large amount of securities always marketable in London, may feel assured of being able at any moment to command the amount of gold or Bank of England notes they may require. While the exchanges are falling and the rate of interest rising, such bodies will almost invariably be led astray, and induced to extend their issues instead of contracting them, and will err in an opposite direction when circumstances change, although in direct defiance of all sound principle. Experience, and *à priori* reasoning, alike confirm this view. The business of issue well conducted can yield but a moderate profit; ill-conducted so far as the public is concerned, it may yield a far more considerable profit: can any

reasonable man doubt which course will be pursued ?

In concluding this section it may be well to direct the reader's attention once more to the tabular statement at page 77, with a view to point out the conclusive evidence it affords, in refutation of the elaborate reasoning of Colonel Torrens, intended to shew that the Bank of England has always the power of controlling the issues of provincial Banks within a period so short as to prevent any derangement in the whole currency. We there see an almost progressive increase in the latter part of 1835 and the first six months of 1836, in the circulation of the joint-stock and private banks, while that of the Bank of England had on the whole diminished, and this during a period of time quite long enough to influence prices, and cause great mercantile miscalculations. It is very true that convertible paper cannot permanently be depreciated, that it must at length become equivalent to the specie it represents; but under certain circumstances the adjustment may be long deferred, as observed before; the arguments of Colonel Torrens are correct, as shewing the mode in which the controlling principle acts. His error consists in assigning to it a greater rapidity of action than it really possesses.

Colonel Torrens further blames the Bank of England for having established branches and

made contracts with joint-stock banks with a view of inducing them to issue Bank of England notes instead of their own. If the table above referred to shews that the Bank of England on the whole has managed its circulation on more correct principles than its rivals, this censure will appear to be misplaced. Indeed, it seems clear that the influence of the controlling currency will be more effective in proportion as it forms a larger part of the whole. Added to this consideration there is another of no small importance. It is agreed on all hands that our money system is defective, that changes in it are required; now in a few years the charter of the Bank may be modified, and its functions and mode of action altered with facility to suit the views of the Legislature, but to interfere with the provincial banks will be found a more difficult task, and the difficulty will increase with every augmentation of their hold on the whole mass of the currency. If then the management of the Bank of England circulation had been worse instead of better than that of private issuers, it might still have been on the whole consistent with the public good to have increased the relative proportion of the former.

In concluding this section it is necessary to call the reader's particular attention to an evil as completely inherent in the present system of paper issues in this country, as the tendency to

over-issues, when a spirit of speculation is abroad, prices rising, and the rate of interest high, viz. a directly opposite tendency,—a disposition on the part of all banks to contract their circulation, in periods of stagnation, distress, and quiescence, to adopt once more Mr. Loyd's phraseology, in a greater degree than could occur with a metallic currency, or paper regulated on a metallic basis. The mischief above-mentioned has been often alluded to in this pamphlet, but has not been duly appreciated by the public; yet its effects are perhaps as disastrous, except that they do not involve insolvency on the part of issuers, as its opposite. In a natural state of the currency, any amount of treasure imported, except for the mere purpose of exportation, would occasion an increase of circulation to an equal amount, and the consequence would be that the currency on the whole could never fall quite so much or remain so long below its average amount as at present.

It is probable that an increase will be found in the treasure of the Bank, between its lowest amount last spring, and the highest just previous to the next turn of the exchanges, of from seven to eight millions. Now such an influx of treasure is unnatural, and could never occur with a metallic circulation—its effects, greater or less, in proportion to the extent of the error, will be accompanied in the first instance by a depression

of prices, unnecessary in extent and continued too long, and finally by a reaction, which will occasion an equally unnecessary and faulty excess the other way.

Such is the state of things at present; its cause is obvious—all banks look to profit in the issue of their notes; when interest is high and large profits are to be made, they make advances freely; when prices fall, engagements run out, and the demands of borrowers diminish, they are almost irresistibly impelled to limit the supply of paper-money. Thus we see that, under existing circumstances, the state of the money-market and of prices, which have been already shewn to be fallacious criteria, and not that of the exchanges, the only safe one, chiefly regulate the amount of the currency. It is hoped that the above very imperfect observations will suffice to attract the reader's attention to a point of very great importance, which for its complete elucidation would require much more space than can be afforded to it here.

SECTION IV.

REASONS WHY THE SCHEME FOR A PAPER CURRENCY PROPOSED IN THE FIRST SECTION CANNOT NOW BE ADOPTED—MEASURES WHICH THE LEGISLATURE OUGHT TO ADOPT, SO AS GRADUALLY TO INTRODUCE A BETTER SYSTEM.

We have seen, in the first Section, that, in order to furnish a perfect paper currency to the country, it would be necessary to have a single issuing body, which should be strictly prohibited from engaging in any banking transactions, properly so called, either by receiving deposits, or by making advances in the usual way on securities bearing interest, excepting at its first establishment and to a fixed extent, or subsequently upon due consideration, when it was found that the positive amount or proportion of treasure and securities might safely be altered. The only business of such an establishment would be to issue notes for gold and silver, and gold and silver for notes, and its effect would be, that the currency would exactly and at every moment be equalized by the exchanges, without any interference what-

ever from other causes. Under present circumstances, however, almost insurmountable obstacles oppose themselves to the execution of this plan; and the object of this section will be to describe a course more practicable though less perfect, which may indeed ultimately lead to the adoption of the former.

It may here be remarked that at the two last periods, when the attention of Parliament has been called to the state of the currency, and measures of legislation have been the result, the great evil against which these have been directed was insolvency on the part of the issuers of notes. The numerous failures among country banks in 1792, 1810, 1816, and 1826, and the wide-spread distress they occasioned, sufficiently account for this; and the example of the Scotch banks, among whom insolvency is almost unknown, led to the establishment of joint-stock banks in England, with a special regard to their superior solidity when compared with private bankers. In this point of view the measures of the Legislature were judicious, and its object has been, to a certain degree, obtained. But we have seen that issuing bodies, although perfectly solid, may derange the circulation and occasion serious evils to the country by violating the principle that a paper currency should vary as a metallic currency would vary. This is a doctrine, if not of recent discovery, at least only

pressed upon the public attention in the last few years; yet its importance is great, and without exact attention to it no material improvement in our money system is possible.

The following, it must be recollected, are the chief evils which present themselves in our existing paper circulation.

1. A tendency to vary both as to excess or deficiency in an unnecessary degree and at unsuitable periods.

2. A liability to discredit both mercantile and political in a large portion of it, if not the whole.

3. Temporary or permanent insolvency on the part of many of the issuers.

Viewed on the whole and with reference to these three points, the most objectionable portion of the existing currency is that which is formed by the notes of the country bankers; then come those of the joint-stock banks, while that of the Bank of England is by far the most perfect, being not only quite unobjectionable in point of security, but also issued with a constant although too imperfect reference to the state of the exchanges, and upon the plan of holding a fixed proportion of securities, which has hitherto appeared the best under the circumstances in which that establishment is placed. The first great reform, then, which the legislature should undertake, were its hands free, would be to abolish altogether all provincial issues whatever; but

against so sweeping an enactment it would be urged, that some of the issuing bodies are in possession of unexpired charters, which could not be infringed without their consent, and that others have a sort of vested interest in the business they carry on, with which it would be very harsh, if not unjust, to interfere,—that even supposing the plea of injustice could be overruled, great difficulties would still present themselves from the strong opinion which prevails in many parts of the empire of the local advantages which the inhabitants derive from private Bank paper—an opinion which, however erroneous, would render its abolition eminently unpopular, and might lead to an ebullition of public feeling which no Government could withstand. What took place in Scotland, in 1826, respecting small notes, may afford some, though but a faint notion of the state of things that might be expected, should such a measure be pressed; and on the whole, then, it must be allowed, that an issue of provincial paper is an evil which cannot be removed at once, however great may be its extent, and that we must therefore content ourselves with the application of palliatives, some of which will be proposed hereafter.

Assuming that no forcible attempt ought to, or indeed can with any hope of success, be made to put an end at once to the circulation of the private and joint-stock banks, it will probably be

granted that during the continuance of the Bank Charter, it would be unjust, even were it expedient to establish a government issue in the metropolis, upon the plan proposed in the first section.

It remains then to be seen what plan could be devised calculated to introduce a better order of things,—a plan which should at the same time be just to existing interests, and efficacious with respect to its objects. It will of course be necessary to divide our proposed alterations into what concerns, 1st, the Bank of England, 2dly, country issuers.

The principle of retaining a fixed amount of securities lately acted upon by the Bank had the merit of being the first, if not the only system at all in accordance with the rules of science which has ever yet guided the conduct of any very important body issuing a paper currrency; yet it is palpably faulty, as mixing together circulation and deposits, things in their nature distinct, and treating an increase or diminution of the former as equivalent to an increase or diminution of the latter; it is besides, as experience has shewn, of extremely difficult application, and requiring, to be understood in practice, much explanation, which may not after all be successful in making it perfectly intelligible to the public. Rendering full justice to the talent of those who devised this scheme, it seems clear that the time is come when it ought to be abandoned, and

the plan so ingeniously explained by Colonel Torrens, viz. that of forming two district establishments within the walls of the Bank, of which one should form the banking, the other the circulation department, be substituted for it, provided there are no insuperable difficulties of a practical kind in the way. Upon this point the author's acquaintance with the internal mechanism of the Bank is not sufficiently particular to enable him to pronounce a decided opinion ; he can only say, that although perhaps great, he cannot think them insuperable, and that no minor obstacles in the details of the Corporation should be allowed to stand in the way of a great public good. For an account of Colonel Torrens's plan, the reader might be at once referred to that gentleman's letter to Lord Melbourne, but it will be convenient to state it here, especially with a view to render his sketch more complete, though the frame-work will still be only incompletely filled up.

The circulation department should strictly confine itself to the exchange of gold for notes and notes for gold, with the following exceptions: 1st, That it might be allowed to purchase and sell silver in the market at fixed published prices, and to a certain amount, say two to three millions sterling. 2d, It should be compellable at all times to buy bar gold or foreign gold coin at £3 : 17 : 6 per ounce, and be allowed to sell at

£3 : 17 : 9 ; but it should not be obliged to pay its notes except in the current coin of the realm : the object of this regulation would be to impose a certain obstacle in the nature of a seignorage to the constant transport of treasure into and out of the country, and thus diminish the expense of coinage. 3d, It might also be permitted to lend notes upon coin or bullion, at a low rate of interest—say one per cent. : this might at times afford facilities to commerce, and furnish a small profit, while it could lead to no derangement in the currency.

The circulation department should commence operations with an amount of treasure equal to from one-third to one-half the notes in circulation, and comprehending both gold and silver; from eight to ten millions would be an ample reserve. This amount of coin and bullion would probably, indeed, be much more than subsequent experience, acquired after two or three revolutions in the currency, would shew to be necessary ; still, in commencing a new system, even an excess of caution is wise. The notes in circulation not represented by the precious metals would be invested in securities bearing interest ; and the amount of these securities thus handed over to the circulation department would not be allowed to vary, unless at some future period it might be found expedient to diminish the proportion of the treasure reserve,

or unless the whole amount of the paper-currency should increase or diminish. Some new arrangements respecting the Branch Banks would be requisite; but to enter upon them here would occupy too much space. Speaking generally, they should be assimilated to private or joint-stock banks, and their notes be only payable where issued. Complete publicity should exist.

The banking department would be left to the management of the Directors, under the superintendence of the Proprietors. Their object, of course, would be to make as large a profit as might be consistent with prudence and good management; and in their attempts to do so they would no longer be thwarted by having to discharge two sets of duties, often inconsistent with each other. Their mistakes, if any, might be injurious to their employers, but could not affect the public interests in the same way as at present.

With a view to increase the disposable banking capital, the Government ought to give its aid, by rendering available a portion of the capital lent to the State. No direct repayment would be necessary, but merely an arrangement by which this portion of the National Debt should be made saleable like the Three per Cent. Consols or Reduced. The new stock might be called the Bank New Three per Cents. The disposable and active capital would thus be the

above amount of stock, say, in the first instance, five millions, about three millions and a half paid off and invested in annuities after the last renewal of the charter, and the rest, about three millions, added to these sums, the banking department would have to employ the deposits, both public and private. On the whole, it would seem that the adoption of the above plan would tend to increase rather than diminish the profits of the Corporation.

It would be well if an arrangement could be made by which the Bank of Ireland should be united with that of England, as far as concerned the circulation department, or at any rate that a separation should take place in its business, similar to that here proposed for the latter. This would place the currency of the sister island on a more firm and consistent basis than it has hitherto possessed.

But, supposing the above scheme to be adopted, the important question arises, how are we to deal with the currency of the private issuers? That currency, we may be assured, will and must be issued on erroneous principles: it never can vary as a metallic currency could vary; erring sometimes on the side of excess, sometimes of deficiency, it will be exposed at particular periods to mercantile discredit, and in times of extreme pressure a portion

of the issuers will become insolvent, either permanently or for a time.

There can be no doubt but that the complete extinguishment of all private issues, at the earliest practicable period, should be the great object of the Legislature; and it seems clear that a law effecting this object at once, and making compensation to those who suffered under it, if such compensation could be fairly claimed,—a point upon which the writer will not enter,—would be the wisest course that could be adopted. But, supposing that no Ministry could even venture now upon such a measure, and that the country is not ripe for it, at least there could be no objection to pass a law forbidding any persons not now in possession of the privilege to make use of it; and it might be possible also to abolish all private issues prospectively, say in ten or twenty years, and to forbid the establishment of any new branch of an existing bank in the meantime.

The circulation department of the Bank should also be compelled to furnish its notes to any issuing body which might deposit an equivalent amount of treasure and approved securities, in the proportion of one-third of the former to two-thirds of the latter. This arrangement might appear unjust to the proprietors of Bank-stock, who, as above stated, would have to furnish in

the first instance coin and bullion equivalent to perhaps half their issues, but as they are now practically obliged to provide a metallic basis for the whole currency, they would not in reality be aggrieved by this apparent want of proportion. The interest on the securities deposited would be paid to the depositing bank, after deducting a small compensation for the expenses of the establishment.

The private issuers would not in this way make as large a profit as they now do, but they would make as much as they ought to make, and would be freed from all anxiety as to discredit and other inconveniences which occasionally, at present, are the sources of great loss to them.

The most ample publicity should be enforced on all issuing bodies in the three kingdoms—not the mere meagre details which now appear quarterly in the Gazette—but the monthly circulation and reserve of bullion and Bank-of-England notes of each bank. These returns should be methodized and averaged, and otherwise be rendered as intelligible and useful to the public as possible. To this regulation should be added an enforcement of adequate security to the public for the amount of the circulation. Several good effects would result—the prevention of loss to holders of notes—a considerable safeguard against discredit, and the creation of a motive for the private and joint-stock banks to abandon a por-

tion of their business, which they cannot carry on for the benefit of the public. They would doubtless struggle against a law which had a tendency to obstruct their freedom of action and somewhat diminish their profit. They might raise a cry of injustice ; the answer to it would be that they have only a permissive right to trench on the prerogatives of sovereignty by coining money, for which privilege they never paid. That even to abolish this right, when its exercise had been found to be pernicious to the common weal, could not be considered unjust,—still less then to modify it,—to subject it to certain conditions which should do no more than prevent its abuse. The securities given would of course bear interest, a lower interest probably than that now yielded by the capital borrowed upon notes, but still as much as a body issuing paper-money, with a due regard to the welfare of the community, can fairly expect.

It is the more necessary to take immediate measures for the reform of the country issues, because, as things now are, the existence of the currency of the Bank of England out of the metropolis hangs upon a thread. Even in Lancashire, which used to be supplied by it exclusively, joint-stock notes are now circulated, and will gradually more and more make their way, until their rivals are entirely expelled. The final result will be to confine the latter to a constantly

diminishing circle around the metropolis. It need hardly be remarked that the Bank of England cannot, with propriety, compete at all times with private establishments in the ordinary details of banking, or consequently keep out its circulation in opposition to theirs.

The reader will observe that, in what has preceded, it has not been attempted to exhibit a plan perfect in all its parts, but to furnish a rough sketch which, in its practical application, would require to be carefully considered, so as to meet the existing state and future exigences of the country in a way the most complete, and with the least possible shock to existing interests. No doubt, however, exists in the author's mind, that any apparent difficulties which such a scrutiny might unfold, could be readily overcome should the Legislature, fully impressed with the weighty evils inherent in the present state of the currency, set about their removal with an earnest zeal, proportioned to the magnitude of the occasion.

And here it may be necessary to remark, that, although after summing up and comparing opposing inconveniences, it seems highly desirable, on the whole, that the Bank should be divided without delay into the two departments for circulation and ordinary banking business, yet under the supposition of the country circulation being allowed to remain in its existing state, im-

mense difficulties will occur in maintaining inviolably this separation. Under such circumstances we may anticipate with almost perfect certainty, and within a few years, a period of over-issue and subsequent discredit of provincial paper, attended perhaps by many failures on the part of the issuers, who ordinarily keep a very trifling reserve, relying upon the resources of the Bank in times of pressure. In such a state of things the Bank of England, as it now exists, would freely extend its issues on all sorts of securities, and thus supply the vacuum. The circulation department could not afford aid in this way without a gross violation of its rules. In December 1825 and January 1826 many millions in notes and gold were issued from the Bank, and were all wanted, so enormous was the vacuum, inasmuch as the exchanges rose during that period and long afterwards. Upon the proposed scheme this sum could only be provided by importation of treasure, and notes issued upon it, and would require perhaps a year before it could be put in circulation. The above is doubtless a weighty objection, but not invincible; the difficulty it points out might be met by a temporary deviation from the strict laws of the institution, guarded by the provisos best calculated to prevent their violation in any cases except those of absolute necessity. Thus the Directors of the

Bank might be authorized to make advances on securities from the funds of the circulation department to a limited amount upon an application to that effect from the First Lord of the Treasury, the Chancellor of the Exchequer, and the President of the Board of Trade for the time being, such application, with the reasons for it, being inserted in the Gazette, and laid before Parliament. The difficulty would thus be overcome with perhaps some risk of abuse, in the application of the remedy; and this circumstance should furnish one more argument for a reform of the provincial issues, which are not only imperfect in themselves, but create a serious obstacle to the introduction of a good system in the metropolis.

Some writers, and the high authority of Mr. Loyd may be cited in support of their views, are of opinion that a great good would result from a publication of the accounts of the Bank in more detail than at present. The Author is an avowed enemy of all mystery and concealment, and would readily agree to the greatest publicity being given to all items, which the public may have an interest in knowing; such for instance as actual, along with averaged amounts; but he would not anticipate the removal of any large portion of the evils attending our present system of currency from the change thus proposed. Well-informed and inquisitive per-

sons may learn all that is necessary to form a correct judgment on the state of the currency at present, and speaking practically, a country issuer need only refer to the state of the treasure and circulation, their increase or diminution: average amounts are those from which the most useful inferences are to be drawn.

A yearly or half-yearly report to the Proprietors would be a more instructive document than the most elaborate accounts published without any accompanying remarks. The above paragraph supposes that the plan and division into two departments should not be adopted. Was it to take effect, the greatest publicity would of course be given to the account of the circulation department, while the banking department would become a mere private speculation, and its accounts would be dealt with as the Proprietors might judge best for their own interests.

In conclusion, we may observe that, however desirous the Directors of the Bank of England might be to introduce the proposed system, they cannot be expected to do so on their own responsibility, especially in the existing state of public opinion, which has almost every thing to learn on the subject of currency. They must receive an impulse, or at least a summons from without; they must have the concurrence and support of the government, perhaps of the legislature, of the court of proprietors, and if possible of the com-

munity at large, and it is difficult to say who should take the initiative. This is a matter which the author leaves to the consideration of others, satisfied if he has at all contributed to throw light upon the subject of currency, which, though apparently easy and simple, has called forth more conflicting opinions and gained a less firm footing, with reference to its true principles, in the public mind, than any other which has elicited an equal degree of attention and discussion.

THE END.

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